

UNAVCO, INC.
Boulder, Colorado

FINANCIAL STATEMENTS
December 31, 2011

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Independent Auditor's Report

Board of Directors
UNAVCO, Inc.
Boulder, Colorado

We have audited the accompanying statement of financial position of UNAVCO, Inc. (UNAVCO) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of UNAVCO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNAVCO, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2012 on our consideration of UNAVCO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of

the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

Denver, Colorado
June 26, 2012

UNAVCO, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2011

ASSETS

ASSETS

Cash and cash equivalents	\$ 266,562
Restricted cash	66,449
Investments	250,187
Federal grants receivable	1,248,766
Deposits	40,673
Other receivables	130,983
Prepaid expenses	81,867
Property and equipment, net	<u>21,626</u>

TOTAL ASSETS **\$ 2,107,113**

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 811,378
Accrued liabilities	<u>640,993</u>
Total liabilities	<u>1,452,371</u>

NET ASSETS

Unrestricted	<u>654,742</u>
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TOTAL LIABILITIES AND NET ASSETS **\$ 2,107,113**

The accompanying notes are an integral part of the financial statements.

UNAVCO, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

REVENUES AND OTHER SUPPORT

Federal agency revenue	
Federal grants	\$ 18,040,238
Other income	<u>800,967</u>
Total federal grant revenue	18,841,205
Membership contributions	10,000
Fee for service	394,005
Interest income	<u>645</u>
Total revenues and other support	<u>19,245,855</u>

EXPENSES

Program services	
Plate Boundary Observatory (PBO)	8,004,953
Facility cooperative agreement	3,960,225
Network enhancement	2,203,136
Data products and archiving	1,064,941
Polar programs	386,965
Education and outreach	502,332
Principal investigator programs	548,998
Commercial	94,681
Other	<u>132,010</u>
Total program services	16,898,241
General and administrative	<u>2,480,119</u>
Total expenses	<u>19,378,360</u>

CHANGE IN NET ASSETS	(132,505)
NET ASSETS, BEGINNING OF YEAR	<u>787,247</u>
NET ASSETS, END OF YEAR	<u><u>\$ 654,742</u></u>

The accompanying notes are an integral part of the financial statements.

UNAVCO, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (132,505)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	22,044
Unrealized gain on investments	(187)
Loss on the transfer of equipment to sponsor	183,061
Effects of changes in operating assets and liabilities:	
Federal grants receivable	(300,352)
Other receivable	354,104
Prepaid expenses	14,121
Accounts payable	179,310
Accrued liabilities	<u>(282,908)</u>
Net cash provided by operating activities	<u>36,688</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments of capital lease obligations	<u>(8,436)</u>
Net cash used in financing activities	<u>(8,436)</u>

INCREASE IN CASH AND CASH EQUIVALENTS 28,252

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 304,759

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 333,011

The accompanying notes are an integral part of the financial statements.

UNAVCO, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UNAVCO, INC. (UNAVCO) is a non-profit membership-governed organization that supports and promotes Earth science by advancing high-precision geodetic and strain techniques such as the Global Positioning System. UNAVCO is a community centered organization committed to providing services that benefit the community through savings in the cost of scientific research and by enhancing communication both within the community and with sponsors. The organizational structure is designed to accommodate anticipated growth and breadth in the application of geodetic research in Earth science by the governance of its member representatives.

UNAVCO was formed in response to community support of its role as the lead organization for community based planning and management of new initiatives such as the Plate Boundary Observatory. The incorporation is intended to enable better community oversight of and input into UNAVCO activities. It will also enable application and receipt of funds from federal agencies, such as the National Science Foundation (NSF), for support of these communities.

Basis of Presentation

UNAVCO is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2011, UNAVCO had no temporarily or permanently restricted net assets.

Basis of Accounting

UNAVCO records transactions on the accrual basis of accounting in conformity with generally accepted accounting principles.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Administrative expenses include those expenses that are not directly identifiable with another specific function but provide for the overall support of UNAVCO.

Income Tax Status

UNAVCO qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for Federal income taxes has been provided. As of December 31, 2011, the Internal Revenue Service has not proposed any adjustments that would result in a material change to the organization's financial position. The organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for the years ended December 31, 2007 and prior.

UNAVCO, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and demand deposit accounts. UNAVCO considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Investments

Certificates of deposit are classified as investments if they do not meet the definition of a cash equivalent due to original term to maturity of over three months. UNAVCO's investments consist of certificates of deposits with maturities of nine months to five years.

Prepays

UNAVCO pays building lease expense, insurance expense, and maintenance contracts in advance of the related periods. These amounts are reported as prepaid expenses on the statement of financial position.

Federal Grants Receivable

UNAVCO receives grants from federal agencies for investment in UNAVCO's mission related projects. Federal grants receivable consist of funding commitments from those agencies which have not been received. Management believes that all receivable amounts are collectible as of year-end. For the year ended December 31, 2011, there were no amounts written off as uncollectible receivables.

Approximately \$570,000 of the \$1,248,766 in federal grants receivable represents expenses incurred by projects for employee accrued vacation in which UNAVCO has not yet requested reimbursement from the respective federal agency. This portion of the receivable will not be collected until the departure of the employees, the respective compensated absence is paid out to the former employees, and UNAVCO requests reimbursement from the federal government agencies. This portion of the receivable is expected to be collected over an extended period of time.

Other Accounts Receivable

Accounts receivable are unsecured customer obligations related to non-government contracts. Accounts receivable are stated at the invoice amount. Management believes that all receivable amounts are collectible as of year-end. For the year ended December 31, 2011, there were no amounts written off as uncollectible receivables.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value at the date of receipt. UNAVCO capitalizes items having a useful life greater than one year and a cost or fair value greater than \$5,000. Property and equipment is depreciated using the straight-line method over the estimated useful lives as follows:

UNAVCO, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	<u>Useful Life</u>
Leasehold improvements	5 years
Furniture and fixtures	5 years
Computer software and equipment	3 years
Vehicles	5 years

The cost of certain equipment used by UNAVCO in operations is not reflected in the statement of financial position because the asset title remains with the federal government. See Note 2.

Impairment of Long-Lived Assets

UNAVCO reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. There were no impairments recognized by UNAVCO for the year ended December 31, 2011.

Accrued Vacation

UNAVCO employees earn between 160 and 256 hours of paid time off each year, 432 of which can be carried over from year to year. At January 1 of each year, any amount accrued greater than 432 hours is forfeited. Accrued hours carried over from year to year are recorded as accrued wages payable at year-end. As of December 31, 2011, total accrued vacation is \$569,709 which is included as a component of accrued liabilities.

Revenue Recognition

Revenue from government contracts is deemed to be earned when UNAVCO has incurred costs or other expenditures which satisfy the terms imposed by the respective grants or contracts. For costs incurred on an accrued basis in excess of funds received from award sponsors, revenue and related receivables are recognized to the extent of such costs.

Other revenue is recognized when earned.

Subsequent Events

Management evaluated subsequent events through June 26, 2012, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2011, but prior June 26, 2012, that provided additional evidence about conditions that existed at December 31, 2011 have been recognized in the financial statements for the year ended December 31, 2011. Events or transactions that provided evidence about conditions that did not exist at December 31, 2011 but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2011.

UNAVCO, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 2 – PROPERTY AND EQUIPMENT

Property with title vested in UNAVCO, including property designated as to a particular purpose, is recorded in the financial statements. Property and equipment at December 31, 2011, consists of the following:

Leasehold improvements	\$ 158,600
Furniture and equipment	5,244
Computer software and equipment	118,671
Vehicles	<u>4,814</u>
	287,329
Less accumulated depreciation	<u>(265,703)</u>
Net property and equipment	<u>\$ 21,626</u>

Total depreciation expense for the year ended December 31, 2011 was \$22,044.

Equipment with title vested in the U.S. Government and other sponsors is not recorded in the statement of financial position. Purchases of such equipment are recorded as expense in the statement of activities. Gross additions in 2011 were \$1,548,794 and the accumulated total of Federal property as of December 31, 2011 was approximately \$20,840,650. UNAVCO has the responsibility of maintaining property records and reporting balances to the respective government agency.

NOTE 3 – LEASES

Operating Leases

UNAVCO leases office space and equipment under several operating lease agreements with various obligation amounts and terms ranging from one to 15 years. UNAVCO is able to terminate the office lease agreements if it does not receive its annual funding from the NSF. Future minimum payments required under the aforementioned agreements as of December 31, 2011 consist of the following:

2012	\$ 474,716
2013	446,069
2014	439,846
2015	439,846
2016	439,846
Thereafter	<u>879,692</u>
Total minimum lease payments	<u>\$ 3,120,015</u>

Rental expense related to operating leases was \$519,268 for the year ended December 31, 2011.

UNAVCO, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 4 – LETTER OF CREDIT

UNAVCO has a line of credit of \$250,000 with a financial institution. As of December 31, 2011, there was no outstanding draw on this credit facility.

NOTE 5 – EMPLOYEE BENEFIT PLAN

UNAVCO has a 403(b) Plan that is administered by the Teachers Insurance Annuities Association's College Retirement Equities Fund (TIAA/CREF). Employees are required to participate in the plan if employed as a regular full-time or regular part-time employee. For UNAVCO employees who make their minimum contribution of 5% to TIAA/CREF, UNAVCO also contributes 10% of the employee's salary. UNAVCO's contributions to the TIAA/CREF for the year ended December 31, 2011 were \$643,239

NOTE 6 – SIGNIFICANT CONCENTRATIONS

Generally accepted accounting principles require disclosure of information about current vulnerabilities due to certain concentrations. These matters include the following:

Revenues from Major Federal Awards

For the year ended December 31, 2011, approximately 93% of UNAVCO's revenues were from the NSF. At December 31, 2011, approximately 91% of accounts receivable are due from 3 customers, the NSF (72%), U.S. Geological Survey (USGS) (7%), and the National Aeronautics and Space Administration (NASA) (12%).

Concentration of Risks

UNAVCO maintains all of its cash and temporary investments in a commercial bank located in Colorado. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. UNAVCO had balances in excess of FDIC limits at December 31, 2011, which were uninsured. UNAVCO believes it is not exposed to any significant risk on cash and cash equivalents.

This information is an integral part of the accompanying financial statements.

SINGLE AUDIT REPORTS AND SCHEDULES

UNAVCO, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

Federal Grantor and Program Title	Federal CFDA Number	Identifying Number	Federal Expenditures
Research and Development Cluster			
<i>The National Science Foundation</i>			
Support for UNAVCO, Inc. and Collaborative Research: EarthScope Facility Operation and Maintenance	47.050	EAR-0732947	\$ 8,623,656
Collaborative Research: Structural Architecture and Evolutionary Plate-Boundary Processes along the San Jacinto Fault Zone	47.050	EAR-0908501	101,986
Passed-Through University of California - San Diego RAPID - Response to the Increased Seismic Activity Along the San Jacinto Fault Zone Following the April 2010 Ms 7.2 El Major-Cucapah Earthquake	47.050	EAR-1057842	27,474
Collaborative Instrumentation: COCONet (Continuously Operating Caribbean GPS Observational Network)	47.050	EAR-1042906	1,259,426
Collaborative Research: Facility Support: Building the Interface Facility for Cm-Scale, 3D Digital Field Geology	47.050	EAR-0651566	92,416
Support for UNAVCO, Inc. and Facility Support: Geodesy Advancing Earth Science	47.050	EAR-0735156	4,495,112
Passed-Through Pennsylvania State University Convergence of Space Geodesy in Plate Boundary Research and Geoscience Education	47.050	EAR-0955560	28,869
Passed-Through Ohio State University The Greenland GPS Network (GNET) Geodetic Constraints on Climate Cycles, Climate Change, and Ice Mass Balance in Greenland	47.078	ARC-1023566	236,492
Passed-Through Georgia Tech University RAPID: Tsunami Reconnaissance of the 11 March 2011 Sendai Tsunami and Earthquake in Japan and Pacific Islands	47.041	CMMI-1135768	12,353
Passed-Through Woods Hole Oceanographic Institute Collaborative Research: The Influence of Hydrofracture and Melt Variability on Greenland Ice Sheet Flow	47.078	ARC-1023364	123,836
Passed-Through New York University Ocean-Ice Interaction in the Amundsen Sea Sector of West Antarctica	47.078	ANT-0732869	31,922
Passed-Through Rutgers University Investigating Hydrology-Driven models for Methane Cycling in Northern Peatlands	47.050	EAR-1045084	2,658
Passed-Through Ohio State University Chile Argentina GPS Network Upgrades	47.050	EAR-1118514	87,604
Passed-Through Ohio State University The Greenland GPS network (GNET): Geodetic Characterization of Water Vapor, Climate Cycles, Climate Change and Ice Mass Balance	47.078	ARC-1111882	2,080
Passed-Through University of Colorado Collaborative Research: Rio Grande Rift II - Kinematics and Dynamics of Continental Deformation in Low Strain-Rate Environments	43.002	EAR-1053596	60
Collaborative Research MRI: Acquisition of Terrestrial Laser Scanning Surface Systems for Earth Sciences Research	47.050	EAR-0923539	56,923
Data Communications Support for GPS Observations of Crustal Deformation Associated with the 2010 Chile Earthquake	47.050	EAR-1036939	41,686

UNAVCO, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011
(Continued)

Federal Grantor and Program Title	Federal CFDA Number	Identifying Number	Federal Expenditures
<i>The National Science Foundation (continued)</i>			
Enhanced Support for GPS Networks and Terrestrial Laser Scanning in Polar Regions	47.078	ANT-1053220	444,234
EarthScope Comprehensive SAR Archive	47.050	EAR-0952375	51,976
Community Workshop: Charting the Future of Terrestrial Laser Scanning (TLS) in the Earth Sciences and Related Fields	47.050	EAR-1138279	52,247
Support of UNAVCO, Inc. and Track 2: Developing a Sustainable RECESS Program	47.050	GEO-0914704	410,279
GEO REU Workshop 2011: Developing an REU Community and Best Practices Through Networking	47.050	EAR-1148677	92,881
Facility Support of the WInSAR Archive for Crustal Dynamics Research	47.050	EAR-0733437	124,992
Support for UNAVCO, Inc. and Collaborative Research: EarthScope Facility Operation and Maintenance (ARRA)	47.082 (ARRA)	EAR-0732947	491,434
MRI-R2: Acquisition of GPS Equipment for Africa Array (ARRA)	47.082 (ARRA)	EAR-0960160	<u>7,529</u>
<i>Total National Science Foundation</i>			<u>16,900,125</u>
<i>National Aeronautics and Space Administration Grants</i>			
Discovery and Delivery of Space Geodetic Data Products from Distributed Archives	43.000	NNX10AF07A	470,594
Science Data Systems for Satellite and Airborne LIDAR Data	43.000	NNX10AF12A	<u>383,088</u>
<i>Total National Aeronautics and Space Administration Grants</i>			<u>853,682</u>
<i>United States Geological Survey Grants</i>			
WinSAR Data Archive	15.808	G09AC00002	2,203
USGS Replacement of Borehole Strainmeters in California (ARRA)	15.807 (ARRA)	G10AC00076	679,686
Installation of Permanent GPS Networks in Northern California to Support Crustal Deformation Monitoring by the USGS (ARRA)	15.807 (ARRA)	G10AC00075	299,049
Archiving of USGS Daily Global Positioning System Data at the UNAVCO Data Center Dated 12/28/09	15.808	G10AP00062	<u>14,607</u>
<i>Total United States Geological Survey Grants</i>			<u>995,545</u>
Total			<u>\$ 18,749,352</u>

UNAVCO, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2011

General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of UNAVCO for the year ended December 31, 2011.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Federal financial assistance provided to subrecipients is treated as an expenditure when it is paid to the subrecipient.

Subrecipients

Of the federal expenditures presented in the accompanying schedule of expenditures, UNAVCO provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Support for UNAVCO Community and Facility Support: Geodesy Advancing Science	47.050	\$ 155,970
Support for Collaborative Research: EarthScope Facility Operation and Maintenance (PBO)	47.050	662,708
Support of UNAVCO, Inc. and Track 2: Developing a Sustainable RESESS Program	47.050	25,483
Support for Discovery and Delivery of Space Geodetic Data Products from Distributed Archives	43.000	357,369
Support for Science Data Systems for Satellite and Airborne LIDAR Data	43.000	291,436
Support for Data Communications Support for GPS Observations of Crustal Deformation Associated with the 2010 Chile Earthquake	47.050	<u>731</u>
		<u>\$ 1,493,697</u>

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Directors
UNAVCO, Inc.
Boulder, Colorado

We have audited the financial statements of UNAVCO, Inc. (UNAVCO) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of UNAVCO is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered UNAVCO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, as described in the accompanying *schedule of findings and questioned costs* as 2011-01, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UNAVCO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

UNAVCO's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit UNAVCO's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Denver, Colorado
June 26, 2012



**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in Accordance
with OMB Circular A-133**

Board of Directors
UNAVCO, Inc.
Boulder, Colorado

Compliance

We have audited the compliance of UNAVCO, Inc. (UNAVCO) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. UNAVCO's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of UNAVCO's management. Our responsibility is to express an opinion on UNAVCO's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about UNAVCO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of UNAVCO's compliance with those requirements.

In our opinion, UNAVCO complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-02 and 2011-03.

Internal Control Over Compliance

The management of UNAVCO is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered UNAVCO's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-02 and 2011-03. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

UNAVCO's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit UNAVCO's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Denver, Colorado
June 26, 2012

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified
 Internal control over financial reporting:
 Material weakness(es) identified? _____ yes _____√_____ no
 Significant deficiency(ies) identified that are
 not considered to be material weaknesses? _____√_____ yes _____ none reported
 Noncompliance material to financial statements
 noted? _____ yes _____√_____ no

Federal Awards

Internal control over major program:
 Material weakness(es) identified? _____ yes _____√_____ no
 Significant deficiency(ies) identified that are
 not considered to be material weaknesses? _____√_____ yes _____ none reported

Type of auditor's report issued on compliance
 for major program: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with section
 510(a) of OMB Circular A-133? _____√_____ yes _____ no

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Various	Research and Developments Cluster

Dollar threshold used to distinguish between
 Type A and Type B programs: \$562,481

Auditee qualified as low-risk auditee? _____√_____ yes _____ no

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding 2011-01

Recording Cash Transactions in the Correct Period
Significant Deficiency

Condition: During our testing of the cash balances, we noted several reconciling items that represented checks for payments related to 2012 expenses (for example, rent payment) that cleared the bank during December 2011, but the related transactions were not recorded in the general ledger system (the system) until January 2012. As a result, prepaid expenses were understated by \$41,947 and cash was overstated by the same amount as of December 31, 2011.

In addition to the system not recording cash transactions as they occur, we also noted an instance in which checks were allowed to be issued prior to UNAVCO entering the respective invoices into the system. As a result, when the checks cleared the bank, the accounting system attempted to automatically relieve the related accounts payable balances for each vendor. However, since UNAVCO had not input the invoices into the system, this resulted in a debit balance for these vendors. This caused accounts payable and prepaid expenses to be understated by \$24,704.

Cause: The system allows users to issue a check without automatically reducing the cash balance for the transaction. Further, it allows cash transaction to reduce accounts payable balances for invoices/charges not previously established in the system.

Recommendation: The system should be modified to ensure that cash transactions cannot be performed without being recorded to the general ledger. The related prepayment or relief of accounts payable as well as corresponding reduction in cash should be posted at the time when checks are written. Further, if these items are identified in the future, management should resolve such issues by recording correcting journal entries during the bank reconciliation preparation or review process. Lastly, a control should be implemented that prevents the system from relieving a payable balance that does not exist in the system. In most instances, this control should be that the required vendor information (invoice, purchase order, etc.) must be entered into the system prior to the issuance of the check.

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2011-01 (Continued)

Views of responsible officials and planned corrective actions:

The accounting software allows cash transactions with a current date to post in a future period. When this occurs, the system holds the transaction and does not post to A/P until the future period. Although the software cannot be changed, UNAVCO, Inc. proposes controls to assure that the current period matches the check date.

UNAVCO, Inc. agrees that prepayments and relief of accounts payable should be posted at the time the checks are written to assure the cash balance reflects checks written. UNAVCO will implement the following corrective actions:

- 1) The Controller will ensure that Draw Requests include an A/P Aging backup that reflects all invoices referenced on the Weekly Cash Request and that the date checks are printed post to the current period through a Check Batch record stored with each Draw.
- 2) The Staff Accountant will ensure that the bank reconciliation does not include checks written in the current period but posted to a future period.

Contact Information: Carol Deitesfeld, Controller UNAVCO, Inc.

Finding 2011-02

Research and Development Cluster

Cash Management
Significant Deficiency, Noncompliance

Criteria: When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury or federal agency and disbursement. To the extent available, program income, rebates, refunds, and other income and receipts should be disbursed before requesting additional cash payments as required by the A-102 Common Rule (§____.21) and OMB Circular A-110 (2 CFR section 215.22).

Condition: Cash advance estimates are made based on needs of the entity within four business days. This includes payroll estimates, aged payables, estimated wire transfers and an additional estimate to account for other invoices incurred but not received from staff.

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2011-02 (Continued)

However, in anticipation of a potential government shutdown, on three separate occasions, UNAVCO staff requested cash advances in amounts that represented approximately three weeks worth of operating expenses during the months of April, September and October.

Effect: Draw requests were in excess of UNAVCO's immediate cash needs (3 – 4 business days).

Questioned Costs: Cash advances exceeded immediate cash needs for these three draws for a total of \$1,349,296.

Cause: In order to plan for the potential of a government shut-down, management determined that such cash draws were necessary so not to interrupt UNAVCO operations for a period of up to three weeks.

Recommendation: Management should evaluate its current cash and investment balances and policies and consider the potential of establishing a reserve for emergency use, such as a government shut-down. This evaluation should include considering establishing a savings plan for future reserves and evaluating current balances that could be used to establish this reserve. Lastly, UNAVCO should approach their grantors during a time of planning (versus a time of need) to agree upon an approach to be used in case of similar emergencies in the future.

Views of responsible officials and planned corrective actions:

UNAVCO, Inc. has a line of credit with availability of \$250,000 and also cash in liquid accounts for use as contingency funds for emergencies. If a government shutdown or other emergency is imminent that UNAVCO officials determine require cash needs that exceed the requirement to minimize time between funds transfer and disbursement, UNAVCO will document an additional draw request and seek approval from the NSF.

Contact Information: Gail Strobel, Business Affairs Director

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2011-03

Research and Development Cluster

Period of Availability

Significant Deficiency, Noncompliance

- Criteria: Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. The requirements for period of availability of Federal funds are contained in the A-102 Common Rule (§____.23), OMB Circular A-110 (2 CFR sections 215.28 and 215.71), program legislation (including ARRA, as applicable), Federal awarding agency regulations, and the terms and conditions of the award.
- Condition: During our period of availability testing, we noted that UNAVCO has one grant with a period that runs from January 1, 2008 – September 30, 2013. UNAVCO entered into a 5 year agreement related to land use permits in Washington for \$15,000. This entire amount was paid for and recorded as prepaid and the related expense is recognized during each fiscal year. However, the lease agreement spans through October 20, 2014, which is beyond the period covered by the grant agreement.
- Effect: We are unable to determine whether expenses were incurred within the period under the grant agreement.
- Questioned Costs: Unknown.
- Cause: The previous land use permit expired and the longest/most cost effective permit period available was through 2014. Further, management believes that this grant will be extended by the National Science Foundation to cover periods past 2013.
- Recommendation: We recommend that management develop an agreement with the National Science Foundation for costs associated with permits whose effective dates cross award boundaries to ensure that costs charged to grants are within the period of availability based on the grant agreement.
- Views of responsible officials and planned corrective actions: UNAVCO, Inc. has approximately 1,250 permitted sites for instrument installations with varying expiration dates and terms for each permit. The procurement of permits requires application with and payments to landowners who range from individuals to private legal entities to public land agencies. Because of the large volume and variability of permits required, UNAVCO will seek permission from the NSF to secure and pay for permits with terms that extend beyond September 30, 2013.
- Contact Information: Gail Strobel, Business Affairs Director

UNAVCO, INC.
SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2011

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding 2010-01

Significant Deficiency

Summary: We noted the following areas where a lack of segregation of duties exists:

Bank Reconciliations – Bank reconciliations, which are performed by the Accountant, are not reviewed and formally approved by someone other than the person who performed the reconciliation either electronically or by signing a printed copy of the reconciliation.

Journal Entry Approval – Journal entries made by the Controller or the Accountant are not reviewed for accuracy, appropriateness, and agreement to supporting documentation and are not approved by someone separate from the preparer.

Cash Disbursements – The Controller is an approved signor for UNAVCO's bank accounts and can print checks, make wire transfers, and is responsible for approving wire transfers.

Payroll – The Accountant has the ability to edit payroll information within TriNet, including adding one time bonus payments. There is no review and approval of payroll reports, edits, or reconciliations performed by the Accountant.

Recommendation: We recommend the following for the above noted areas:

Bank Reconciliations – All bank reconciliations should be reviewed by someone at least one level above the person who performed them. This review should ensure the bank reconciliation is mathematically correct and all reconciling items have been properly investigated and resolved. UNAVCO should retain documentation of this review.

Journal Entry Approval – All journal entries should be approved either electronically or on a paper copy by someone other than the person who prepared the entries. This review should be documented.

Cash Disbursements – Access controls should be implemented so that no one person can process disbursements, including checks and wires, and approve those disbursements. The Controller's ability to print checks should be removed within Solomon access rights. In addition, the Controller's ability to make wire transfers should be removed.

UNAVCO, INC.
SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2011

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS (CONTINUED)

Finding 2010-01 (Continued)

Payroll – The payroll reconciliation, all payroll edits made by the Accountant, and related documentation should be reviewed and approved each pay period by someone other than the Accountant who completed the edits and reconciliation. This review should be documented.

Status: Implemented.

Finding 2010-02

Significant Deficiency

Summary: We noted 15 invoices that were improperly excluded from accounts payable at year-end.

Recommendation: UNAVCO should implement a formal cut-off policy to ensure liabilities are properly accrued at year-end. This policy should require that accounting staff receive formal training regarding proper cut-off procedures. A formal notification should be sent to those responsible for coding invoices after year-end to remind those employees of proper accrual techniques. We recommend that the Controller work with the accounting staff to educate them on when to accrue payables at year-end. Lastly, the Controller or Accountant should consider performing a review of material checks paid after year-end to ensure they are properly recorded.

Status: Implemented.

UNAVCO, INC.
SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2011

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2010-03 Research and Development Cluster

Cash Management
Significant Deficiency, Noncompliance

Summary: Draw requests are not supported by an accounts payable aging listing or equivalent, causing draws to be in excess of UNAVCO's immediate cash needs. Additionally, NSF grant money is being used to fund NASA and USGS program expenditures.

Recommendation: Policies and procedures should be established to ensure the time elapsed between draw request and grant expenditures incurred is minimized. Additionally, money that is received related to the NSF should be held in a separate account to ensure this money is not being used to fund NASA and USGS project expenditures.

Status: Partially implemented, see current year finding 2011-02.

Finding 2010-04 Research and Development Cluster

Equipment Management
Significant Deficiency, Noncompliance

Summary: UNAVCO has the responsibility to report government-owned assets of subawardees to NSF as part of its annual inventory report. UNAVCO's inventory report did not reflect the equipment items purchased under UNAVCO subawards.

Recommendation: UNAVCO should develop a process to properly identify and report the equipment of its subrecipients.

Status: Implemented.

Finding 2010-05 Research and Development Cluster

Reporting
Significant Deficiency

Summary: During our testing over the American Recovery and Reinvestment Act (ARRA) Section 1512 Report and Federal Financial Report for quarters three and four (SF - 425), no controls were noted that were performed by UNAVCO to verify completeness and accuracy of the reports prior to submission.

UNAVCO, INC.
SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2011

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2010-05 (Continued)

Recommendation: UNAVCO should improve controls over federal reporting by instituting a secondary review and approval process to ensure amounts recorded on reports are accurately reported and supported by source documentation.

Status: Implemented.

Finding 2010-06 Research and Development Cluster

Procurement, Suspension and Debarment
Significant Deficiency and Noncompliance

Summary: Of the eleven purchase orders and/or contracts selected for suspension and debarment testing, one was not reviewed for suspended or debarred parties.

Recommendation: Revise procedures related to suspension and debarment from a contract perspective. For contracts and purchase orders that are to be paid with federal funding. UNAVCO should ensure vendors are examined to verify the entity is not contracting with suspended or debarred parties.

Status: Implemented.

Finding 2010-07 Research and Development Cluster

Procurement, Suspension and Debarment
Significant Deficiency and Noncompliance

Summary: Of the 40 purchase orders and/or contracts selected for procurement testing, two did not have documentation of a competitive bid process.

Recommendation: For purchases of materials, equipment and services, we recommend that management institute a check list that is maintained along with the purchase order/invoice to ensure that competitive bids are obtained where required. For all expenses where this requirement will be waived, we recommend that management update UNAVCO's purchasing policy to omit these types of items from being subject to bid procedures or otherwise document the reason for exclusion.

Status: Implemented.